

CITY OF NATIONAL CITY
NATIONAL CITY, CALIFORNIA

Single Audit Report on Federal Awards

Year ended June 30, 2007

CITY OF NATIONAL CITY
Single Audit Report on Federal Awards
Year ended June 30, 2007

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Honorable Members of the City Council
City of National City, California

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

We have audited the financial statements of the City of National City, California (the City) as of and for the year ended June 30, 2007, and have issued our report thereon dated March 17, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider items 07-01, 07-02, 07-03, 07-04, 07-05, 07-06 and 07-08 that have been described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Honorable Members of the City Council
City of National City, California
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Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weakness. However, of the significant deficiencies described above, we consider item 07-01 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an immaterial instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards*. This matter has been described in the accompanying schedule of findings and questioned costs as item 07-07.

The City of National City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City of National City's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the City's management and City Council and is not intended to be and should not be used by anyone other than these specified parties.

Mayer Hoffman McCann P.C.

Irvine, California
March 17, 2008



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City of National City, California

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL
AWARDS IN ACCORDANCE WITH OMB CIRCULAR A-133**

Compliance

We have audited the compliance of the City of National City, California (the City) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 07-08. We also noted an immaterial instance of noncompliance that was identified during the audit of the Morgan Towers Enterprise Fund which has been reported to the Board of Directors of the Community Development Commission of the City of National City in a separate letter dated September 21, 2007.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material

Honorable Members of the City Council
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effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards and Financial Data Schedule

We have audited the financial statements of the City of National City as of and for the year ended June 30, 2007, and have issued our report thereon dated March 17, 2008. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards and Financial Data Schedule are presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

The City of National City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City of National City's responses and, accordingly, we express no opinion on them.

This report is intended for the information of the City's management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

Mayer Hoffman McCann P.C.

Irvine, California
March 17, 2008

CITY OF NATIONAL CITY
Schedule of Expenditures of Federal Awards
Year ended June 30, 2007

Federal Grantor/ Pass-through Grantor/ Program Title	Program Identification Number	Federal Domestic Assistance Number	Federal Financial Assistance Expenditures	Amount Provided to Subrecipients
<u>U.S. Department of Health and Human Services</u>				
Passed through the County of San Diego:				
Special Programs for the Aging, Title III, Part C	388636	93.045	\$ 439,428	-
<u>U.S. Department of Housing and Urban Development</u>				
Direct assistance:				
Community Development Block Grant - Entitlement Program	B-02-MC-06-0560	14.218	1,806,962	43,725
Section 8 Housing Choice Vouchers	CA116V0	14.871	8,204,943 *	-
Section 8 Housing Choice Vouchers - Morgan Towers**	CA60006011	14.871	577,609 *	-
Supportive Housing for the Elderly - Morgan Towers	CA60006011	14.157	3,022,049 *	-
Lead Hazard Control Grant	CALHB0238-03	14.900	496,149	298,842
Healthy Homes Demonstration Grants	CALHH0145-05	14.901	164,688	81,261
Total U.S. Department of Housing and Urban Development			14,272,400	423,828
<u>U.S. Department of Justice</u>				
Direct assistance:				
Local Law Enforcement Block Grant	2004LBBX1137	16.592	5,208	-
<u>Executive Office of the President - Office of National Drug Control Policy</u>				
Passed through the City of San Diego Police Department:				
High Intensity Drug Trafficking Areas	I8PSCP55	07.I8PSCP55	60,630	-
<u>Corporation for National and Community Service</u>				
Passed through the California Service Corps:				
AmeriCorps	03ACHY12-C65	94.006	190,883	-
<u>Institute of Museum & Library Services</u>				
Direct assistance:				
Institute of Museum & Library Services Grant	CL0005000705	45.301	50,028	-
Total Federal Financial Assistance Expenditures			\$ 15,018,577	423,828

* Major Program

** See Note 1(d) in the Notes to the Schedule of Federal Awards for HUD required information.

The accompanying notes are an integral part of this schedule.

CITY OF NATIONAL CITY

Notes to the Schedule of Expenditures of Federal Awards

Year ended June 30, 2007

(1) Summary of Significant Accounting Policies Applicable to the Schedule of Expenditures of Federal Awards

(a) Scope of Presentation

The accompanying schedule presents only the expenditures incurred (and related awards received) by the City of National City, California (the City) which are reimbursable under federal programs of federal financial assistance. For purposes of this schedule, federal awards include both federal financial assistance received directly from a federal agency, as well as federal funds received indirectly by the City from non-federal organizations. Only the portion of program expenditures reimbursable with such federal funds are reported in the accompanying schedule. Program expenditures in excess of the maximum federal reimbursement authorized and the portion of program expenditures that were funded with state, local or other non-federal funds are excluded from the accompanying schedule.

(b) Basis of Accounting

The expenditures included in the accompanying schedule were reported on the modified accrual basis of accounting. Under the modified accrual basis of accounting, expenditures are recognized when the City becomes obligated for payment as a result of the receipt of the related goods and services. Expenditures reported include any property or equipment acquisitions incurred under the Federal program.

(c) Subrecipients

During the fiscal year ended June 30, 2007, the City disbursed \$423,828 to subrecipients to be used for the federally allowable expenditures in accordance with the grant agreements.

(d) Supplementary Information Required by HUD – Financial Data Schedule

The *financial data schedule* supplementary information required by the U.S. Department of Housing and Urban Development (HUD) for the Morgan Towers Section 8 Housing Choice Voucher program is reported in a separate report entitled "Morgan Towers Financial Statements and Single Audit Report for the year ended June 30, 2007", dated September 21, 2007. These financial statements may be obtained from the Community Development Commission of the City of National City located at 1243 National City Boulevard, National City, CA 91950.

CITY OF NATIONAL CITY
Financial Data Schedule
June 30, 2007

	<u>Section 8 Housing Assistance</u>
<u>Assets</u>	
Current assets:	
Prepaid items and deposits	\$ 3,386
Total current assets	<u>\$ 3,386</u>
Total assets	<u>\$ 3,386</u>
<u>Liabilities and Fund Balance</u>	
Current liabilities:	
Accounts payable and accrued liabilities	\$ 179,977
Due to other funds	16,042
Total current liabilities	<u>196,019</u>
Total liabilities	<u>196,019</u>
Fund balance:	
Undesignated fund balance	<u>(192,633)</u>
Total liabilities and fund balance	<u>\$ 3,386</u>
Revenues:	
Housing assistance voucher program	\$ 8,204,943
Other revenue	30,035
Total revenues	<u>8,234,978</u>
Expenditures:	
Administrative	759,517
Special services	184,204
Operating and maintenance expenditures	5,277
Housing assistance payments	<u>7,225,337</u>
Total expenditures	<u>8,174,335</u>
Net change in fund balance	<u>60,643</u>
Beginning fund balance, as restated*	<u>(253,276)</u>
Ending fund balance	<u>\$ (192,633)</u>

* The accompanying financial data schedule reflects an adjustment resulting in a restatement of beginning fund balance of the Section 8 Housing Assistance Fund to reverse an erroneous transfer made in previous years.

CITY OF NATIONAL CITY

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

(A) Summary of Auditors' Results

1. An unqualified report was issued by the auditors on the financial statements of the auditee.
2. There were seven significant deficiencies in internal control over financial reporting that we described as items 07-01, 07-02, 07-03, 07-04, 07-05, 07-06 and 07-08 below. We consider item 07-01 to be a material weakness.
3. The audit disclosed no instances of noncompliance that were material to the financial statements of the auditee.
4. There were no material weaknesses in internal control over the major programs of the auditee.
5. An unqualified report was issued by the auditors on compliance for major programs.
6. The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 07-08.
7. The major programs of the auditee were as follows:
 - U.S. Department of Housing and Urban Development - Section 8 Housing Choice Vouchers Program - CFDA #14.871
 - U.S. Department of Housing and Urban Development - Supportive Housing for the Elderly - CFDA #14.157
8. The dollar threshold used to distinguish Type A and Type B programs was \$450,557.
9. The auditee was not considered to be a low risk auditee for the year ended June 30, 2007 for the purposes of determining major programs.

(B) Findings Related to the Financial Statements which are Required to be Reported in Accordance with GAGAS

(07-01) Inadequate Internal Controls over Cash and Investments

During our review of internal controls over cash and investments, we noted that the cash and investment portfolios for the Community Development Commission (CDC) (including cash and investments held by their respective fiscal agent) had not been reconciled to the general ledger on a monthly basis. Sound internal controls dictate that the individual in charge of reconciling the cash and investment portfolio to the general ledger ensure that all cash and investment activities (i.e., purchases, sales, transfers, interest earnings) have been accurately and timely recorded in the general ledger. This procedure should be done soon after month end in order to efficiently detect and resolve any discrepancies or unauthorized transactions that might occur.

CITY OF NATIONAL CITY
Schedule of Findings and Questioned Costs
(Continued)

(B) Findings Related to the Financial Statements which are Required to be Reported in Accordance with GAGAS, (Continued)

(07-01) Inadequate Internal Controls over Cash and Investments, (Continued)

Recommendation

We recommend that the CDC reconcile and record all cash and investment activity to the general ledger on a regular monthly basis. We further recommend that the City and CDC consider the use of a third party custodian in performing investment transactions for all investments held. The involvement of a third party custodian (separate and distinct from the institution that executes the investment purchase on the City and CDC's behalf) enhances the internal controls over investments by decreasing the risk of fraud by the counter party, the party that makes the investment purchase.

Management's Response

The cash and investments of the CDC are now recorded on a monthly basis. The City and the CDC will further investigate the use of a third party custodian in performing the investment transactions.

(07-02) Internal Control over Journal Entries

During our review of internal controls over journal entries we noted that computer access controls over the journal entry function within the general ledger computer application does not require another level of approval for entering journal entries. Therefore, it is possible that an accountant could enter a journal entry (which would automatically be recorded in the general ledger) and never prepare a journal entry form and as a result the journal entry might not ever be reviewed by someone independent of the preparation.

Recommendation

If the system cannot be programmed to restrict the person from both entering and approving journal entries, we recommend that the Finance Director or Financial Services Officer run a general journal report each month, which lists all journal entries made for that month. That individual should review that report to ensure that all significant entries were approved by someone other than the preparer and should document their review by signing that report.

Management's Response

The Finance Director, as the applications administrator of the accounting system, will review and update the level of access of all those that use the accounting system. The

CITY OF NATIONAL CITY
Schedule of Findings and Questioned Costs
(Continued)

(B) Findings Related to the Financial Statements which are Required to be Reported in Accordance with GAGAS, (Continued)

(07-02) Internal Control over Journal Entries (continued)

Finance Director will program the system to ensure that an individual cannot both enter and approve journal entries. In the interim, the Finance Director or the Financial Services Officer will run a journal entry report each month and will review to ensure that one is not able to both enter and approve journal entries.

(07-03) Inadequate Records on Housing Project Capital Assets

The Morgan and Kimball Towers' housing projects of the Community Development Commission of the City of National City have not maintained adequate detailed records relating to their capital assets. It also appears that the auditors are being relied upon to identify capital asset additions. It was further noted that Morgan and Kimball Towers did not have a routine physical inventory count on its capital assets and there was no information provided by management to identify the amount of capital assets that have been replaced or disposed of during the fiscal year. The Morgan and Kimball Towers should maintain detailed records that reconcile to the total ending capital assets and related accumulated depreciation recorded in the general ledger in order to ensure such assets exist and that depreciation is correctly calculated.

Recommendation

We recommend that management review purchases during the year and properly capitalize additions. In addition, a physical inventory should take place at least once every two years to ensure that capital assets that have been replaced or are no longer in service and have been properly removed from the accounting records. The inventory listing should be reconciled to the total ending capital assets and related accumulated depreciation recorded in the general ledger.

Management's Response

The CDC will work closely with the management company, Falkenberg, Gilliam & Associates, and ensure that a full physical inventory is completed by the Fiscal Year ended 07/08. The Finance department will then reconcile the financial records to reflect the physical inventory. This reconciliation will be performed and recorded prior to the start of the audit.

CITY OF NATIONAL CITY

Schedule of Findings and Questioned Costs

(Continued)

(B) Findings Related to the Financial Statements which are Required to be Reported in Accordance with GAGAS, (Continued)

(07-04) Controls over Misstatements Reflected in the Financial Statements

An important element of internal control is that management's review of the financial statements be highly effective to detect misstatements reflected in the year end financial statements. While this review currently contributes to the objectives of the financial reporting process, this review does not rise to the level necessary to detect misstatements associated with some of the more complex and technical elements reflected in the financial statements.

Currently, the audit firm is relied upon to prevent or detect misstatements in the year end financial statements. Auditing standards require that client systems be effective without reliance upon the audit process. This is because a key role of the auditor is to evaluate the effectiveness of the client's financial reporting control systems. The audit firm cannot be a part of the client's internal control system that is evaluated during the audit process.

Paragraph 19 of the Statement on Auditing Standards No. 112 requires that the auditor include in the report of significant control deficiencies any material adjustments detected by the audit process. For the year ended June 30, 2007, material adjustments detected by the audit process were as follows:

- Transfer of tax increment revenue from the Redevelopment Capital Project Fund to the Community Development Commission Debt Service Fund.
- Adjustment to reimbursements made between the Section 8 Housing Assistance Special Revenue Fund and the Redevelopment Capital Project Fund.
- Adjustment to the self-insurance claims payable balance recorded at year end in the Liability Insurance Internal Service Fund.
- Adjustment to record capital asset purchases for the Morgan Tower Enterprise Fund, which were recorded as expenses rather than capital assets.

Recommendation

We recommend that management record material adjustments on an annual basis prior to the start of the audit.

Management's Response

The Finance Director and the Financial Services Officer will ensure that material adjustments are recorded prior to the start of the audit.

CITY OF NATIONAL CITY

Schedule of Findings and Questioned Costs

(Continued)

(B) Findings Related to the Financial Statements which are Required to be Reported in Accordance with GAGAS, (Continued)

(07-05) Adjustments Posted During the Audit

During the audit, numerous adjustments were made by the accounting department after the initial trial balances were provided to the auditors. The audit process is more effective when all adjustments are posted to the accounting records before the start of the audit.

Recommendation

In order for the audit process to serve as an effective independent review, we recommend that all adjustments be posted to the trial balances before the start of the audit.

Management's Response

The Finance Director and the Financial Services Officer will ensure that all adjustments are posted to the trial balance prior to the start of the audit.

(07-06) Deficit Fund Balances

During our audit we noted that the following funds had fund deficits at June 30, 2007:

Section 8 Housing Assistance Special Revenue Fund	\$ (192,633)
Library Construction Capital Project Fund	(1,719,026)
Nutrition Program Special Revenue Fund	(1,393,977)

Recommendation

We recommend that if the funds are not expected to have sufficient future revenues to eliminate the deficit, the City should consider subsidizing these funds from other non-restricted revenue sources.

Management's Response

During FY 07/08, the Section 8 Housing Assistance Special Revenue Fund will no longer have a fund deficit. The National City Public Library construction was completed in October 2006. Since the completion, staff has been working closely with the State of California (the Grantor) to obtain an outstanding progress payment and 10% retention held by the Grantor. The City expects to receive the funds during FY 07/08 and therefore the deficit balance will be resolved. During FY 07/08, the Nutrition Program Special Revenue Fund was budgeted as a General Fund division of the Community Services Department. The City of National City and the Community Development Commission are in process of determining the most effective method to reimburse tax increment funds expended for the Nutrition Center Program.

CITY OF NATIONAL CITY
Schedule of Findings and Questioned Costs
(Continued)

(B) Findings Related to the Financial Statements which are Required to be Reported in Accordance with GAGAS, (Continued)

(07-07) Investment Compliance

During our audit we noted the amount invested in the Local Agency Investment Fund (LAIF) exceeded the amount permitted by the City's Investment Policy. In addition, the City's Investment Policy and California Government Code Section 53601 limits the City's investments to maturities of 5 years. However, during our audit we noted that the City held a federal agency security with a maturity of 5.5 years. It should be noted that the discrepancies described above are not significant to the City's overall portfolio.

Recommendation

We recommend that the City comply with the City's Investment Policy and with the requirements of California Government Code Section 53601 or revise its current policy to allow a maximum of \$40 million in LAIF (as allowed per State regulations), as well as, allow for investment terms to exceed 5 years with City Council approval.

Management's Response

On August 21, 2007, the City revised the Investment Policy to remove the limitation on LAIF. In addition, as part of the update of the policy, the CDC included a resolution which formally adopts the City's investment policy for all CDC investments. The Finance Director will ensure that all investments are in compliance with the Policy.

CITY OF NATIONAL CITY

Schedule of Findings and Questioned Costs

(Continued)

(C) Findings and Questioned Costs for Federal Awards as Defined in Paragraph .510(a) at OMB Circular A-133

(07-08) Subrecipient Monitoring

FEDERAL AGENCY:	Department of Housing and Urban Development
CFDA NO:	14.218, 14.900 and 14.901
FEDERAL PROGRAM NAME:	Community Development Block Grant, Lead Hazard Control Grant and Healthy Homes Demonstration Grants
PROGRAM IDENTIFICATION NO.:	B-02-MC-06-0560, CALHB0238-03 and CALHH0145-05
FEDERAL AWARD YEAR:	2007
CONTROL CATEGORY:	Subrecipient Monitoring
QUESTIONED COSTS:	\$0

Criteria: According to OMB Circular No. A-133, Audits of States, Local Governments, and Non-Profit Organizations, Subpart D-Federal Agencies and Pass-Through Entities, §400 Responsibilities. (d) Pass-through entity responsibilities are:

- Monitor the activities of subrecipients as necessary to ensure that federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.
- Ensure that subrecipients expending \$500,000 or more in federal awards during the subrecipients' fiscal year have met the audit requirements of this part for that fiscal year.
- Issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely correction action.

Condition: The City distributed \$423,828 to various program subrecipients during the fiscal year, including \$236,659 that was distributed to a single subrecipient. During our audit, it was noted that the City completed a risk assessment of the contracted agencies and is in the process of coordinating onsite monitoring with an outside consultant. However, actual onsite subrecipient monitoring did not take place during the fiscal year.

Recommendation: We recommend that the City perform subrecipient monitoring to ensure that its subrecipients use federal funds in compliance with applicable laws and regulations and provisions of contracts or grants.

CITY OF NATIONAL CITY

Schedule of Findings and Questioned Costs

(Continued)

(C) Findings and Questioned Costs for Federal Awards as Defined in Paragraph .510(a) at OMB Circular A-133 (continued)

(07-08) Subrecipient Monitoring (continued)

Management's response: The City's FY 2005-2006 audit report was presented to Council on May 1, 2007 which left approximately 2 months to address this finding, which was understood and discussed with the audit team during the FY 2006-2007 audit. During the remaining months of FY 2006-2007, the City completed the following measures in preparation for conducting the required subrecipient/program monitorings:

- During the spring 2007-2008 CDBG/HOME grant funding process, the City specifically set aside CDBG grant administration funding for this task.
- A Subrecipient Compliance/Monitoring Plan was developed and was incorporated into the FY 2007-2008 CDBG/HOME Annual Action Plan; submitted to HUD on May 15, 2007.

The following measures have been completed or are in process during FY 2007-2008:

- A formal Risk Assessment/Analysis was prepared in the fall of 2007, as a preparatory step for the identification/selection of CDBG funded agencies to be monitored.
- As indicated in the City's Subrecipient Compliance/Monitoring Plan, two (2) HOME funded activities/programs will be monitored; two (2) subrecipients for the Healthy Homes Demonstration Grant program; and one (1) subreicipeint under the Lead Hazard Control Grant will be monitored in FY 2007-2008.
- Formal on-site monitorings will be conducted in partnership with the City's CDBG/HOME Program consultant, Veronica Tam and Associates LLC and with City program staff. The proposed targeted monitoring schedule is March 2008 - May 2008.

CITY OF NATIONAL CITY
Summary Schedule of Prior Audit Findings
Year ended June 30, 2007

The following is the status of the audit findings for the year ended June 30, 2006:

(06-01) Inadequate Internal Controls over Cash and Investments

Matter was not resolved and therefore was repeated as a material weakness in the current year (Finding 07-01).

(06-02) Proper Recording of Grants and Contracts

Resolved.

(06-03) Internal Controls over Payroll

Resolved.

(06-04) Subrecipient Monitoring

Matter was not resolved and therefore was repeated as a significant deficiency in the current year (Finding 07-08).